

*(The following letter was U.S. mailed to independent retailers who received 1099-MISC from RJRT.)*

February 13, 1998

Dear Retailer:

This letter is to provide you with additional information regarding the recent 1099-MISC that you received from R. J. Reynolds Tobacco Company.

- In the 1099-MISC that you received, the "Other Income" amount shown in Box 7 includes an amount for "Sales Drafts".
- The "Sales Drafts" amount includes payments you received under the 1997 Retail Accrual program for "RJR Match" programs (including discounting) that you developed with your RJR representative as well as payments received for Temporary Displays.
- Payments received for "RJR Match" programs that were used for reductions to your Retail purchase price (i.e. price discounts) do not have to be treated as "Gross Income" for tax purposes. These price-discounting payments can be treated for tax purposes as "reductions" to your costs of purchased goods.
- By contrast to the price-discounting payments, payments received from RJRT for non-discounting programs as well as payments received for shelf payments, temporary displays and advertising must be treated as gross income for tax purposes.

THIS LETTER SHOULD BE RETAINED WITH YOUR TAX RECORDS AND A COPY SHOULD BE PROVIDED TO YOUR TAX ADVISOR. IF YOU COMPLETE AND SIGN THE ATTACHED FORM, BASED UPON YOUR RECORDS, AND RETURN IT TO RJRT BY MARCH 2, 1998, WE MAY BE ABLE TO ADJUST YOUR FORM 1099-MISC BY SUBTRACTING THE PRICE-DISCOUNTING. OTHERWISE, YOUR TAX ADVISOR SHOULD ADJUST YOUR TAX RETURN AS NECESSARY.

If you have any questions regarding this letter, please contact us at 336-741-5590.

R. J. REYNOLDS TOBACCO COMPANY

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